MULTIMEDIA UNIVERSITY

STUDENT ID NO

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MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 2, 2018/2019

BEC1844 –MACROECONOMICS

(All sections / Groups)

02 MARCH 2019
9.00 a.m - 11.00 a.m
(2 Hours)

INSTRUCTIONS TO STUDENTS

1. This question paper consists of 8 printed pages with:
   Section A: Forty (40) multiple choice questions (40 marks)
   Section B: Three (3) structured questions (60 marks)

2. Answer **ALL** questions.

3. Answer **Section A** in the multiple-choice answer sheet and **Section B** in the answer booklet provided.

4. Marks allocations are shown at the end of each question.

SECTION A: MULTIPLE CHOICE QUESTIONS (40 MARKS)

Instruction: Answer all questions in the multiple choice answer sheet.

1. Because every transaction has a buyer and a seller, _____.
   A. GDP is more closely associated with a nation's income than it is with a nation's expenditure.
   B. every transaction contributes equally to an economy's income and to its expenditure.
   C. the number of firms must be equal to the number of households in a simple circular-flow diagram.
   D. firms' profits are necessarily zero in a simple circular-flow diagram.

2. When a firm sells a good or a service, the sale contributes to the nation's income _____.
   A. only if the buyer of the good or service is a household.
   B. only if the buyer of the good or service is a household or another firm.
   C. whether the buyer of the good or a service is a household, another firm, or the government.
   D. None of the above are correct.

3. Which of the following transactions *adds* to Malaysian GDP for 2018?
   A. In 2018, Sally sells a car that she bought in 2002 to William for RM5,000.
   B. An Malaysian management consultant works in Singapore during December 2018 and earns the equivalent of RM30,000 during that time.
   C. When Adam and Sara were both single, they lived in separate apartments and each paid RM750 in rent. John and Jennifer got married in 2018 and they bought a house that, according to reliable estimates, could be rented for RM1,600 per month.
   D. None of the above transactions adds to GDP for 2018.

4. Which statement represents most correctly the relationship between nominal GDP and real GDP?
   A. Nominal GDP measures base-year production using base-year prices, whereas real GDP measures current production using current prices.
   B. Nominal GDP measures current production using base-year prices, whereas real GDP measures current production using current prices.
   C. Nominal GDP measures current production using current prices, whereas real GDP measures current production using base-year prices.
   D. Nominal GDP measures current production using current prices, whereas real GDP measures base-year production using base-year prices.

5. A country reported a nominal GDP of RM85 billion in 2005 and RM100 billion in 2004; it reported a GDP deflator of 100 in 2005 and 105 in 2004. Between 2004 and 2005, _____.
   A. real output and the price level both rose.
   B. real output rose and the price level fell.
   C. real output fell and the price level rose.
   D. real output and the price level both fell.

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6. GDP is not a perfect measure of well-being; for example, _____.
   A. GDP excludes the value of volunteer work.
   B. GDP does not address the distribution of income.
   C. GDP does not address environmental quality.
   D. All of the above are correct.

7. The economy's inflation rate is the _____.
   A. price level in the current period.
   B. change in the price level from the previous period.
   C. change in the gross domestic product from the previous period.
   D. percentage change in the price level from the previous period.

8. What basket of goods is used to construct the CPI?
   A. a random sample of all goods and services produced in the economy.
   B. the goods and services that are typically bought by consumers as determined by government surveys.
   C. only food, clothing, transportation, entertainment, and education.
   D. the least expensive and the most expensive goods and services in each major category of consumer expenditures.

Table 1

Year	Peaches	Pecans
2005	RM11 per bushel	RM 6 per bushel
2006	RM 9 per bushel	RM 10 per bushel

9. **Refer to Table 1.** Suppose the typical consumer basket consists of 10 bushels of peaches and 15 bushels of pecans. Using 2005 as the base year, the CPI for 2006 is _____.
   A. 100.
   B. 120.
   C. 200.
   D. 240.

10. **Refer to Table 1.** Suppose the typical consumer basket consists of 10 bushels of peaches and 15 bushels of pecans. Using 2005 as the base year, what was the inflation rate in 2006?
   A. 20%.
   B. 16.7%.
   C. 10%.
   D. 8%.

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11. An important difference between the GDP deflator and the consumer price index is that _____.
    A. the GDP deflator reflects the prices of goods and services bought by producers, whereas the consumer price index reflects the prices of goods and services bought by consumers.
    B. the GDP deflator reflects the prices of all final goods and services produced domestically, whereas the consumer price index reflects the prices of some goods and services bought by consumers.
    C. the GDP deflator reflects the prices of all final goods and services produced by a nation's citizens, whereas the consumer price index reflects the prices of final goods and services bought by consumers.
    D. the GDP deflator reflects the prices of all goods and services bought by producers and consumers, whereas the consumer price index reflects the prices of final goods and services bought by consumers.

12. The primary purpose of measuring the overall level of prices in the economy is to _____.
    A. allow for the measurement of GDP.
    B. allow consumers to know what kinds of prices to expect in the future.
    C. allow for the comparison of dollar figures from different points in time.
    D. allow for the comparison of dollar figures from the same point in time.

13. Which among the following statements is correct about the relationship between inflation and interest rates?
    A. There is no relationship between inflation and interest rates.
    B. The interest rate is determined by the rate of inflation.
    C. In order to fully understand inflation, we need to know how to correct for the effects of interest rates.
    D. In order to fully understand interest rates, we need to know how to correct for the effects of inflation.

14. The existence of money leads to _____.
    A. greater specialization in production, but not a higher standard of living.
    B. a higher standard of living, but not greater specialization.
    C. greater specialization and a higher standard of living.
    D. neither greater specialization or a higher standard of living.

15. Which of the following best illustrates the unit of account function of money?
    A. You list prices for candy sold on your Web site, www.sweettooth.com, in Ringgit.
    B. You pay for your Taylor Swift concert tickets with dollars.
    C. You keep RM10 in your backpack for emergencies.
    D. None of the above is correct.

16. Current U.S. currency is _____.
    A. fiat money with intrinsic value.
    B. fiat money with no intrinsic value.
    C. commodity money with intrinsic value.
    D. commodity money with no intrinsic value.

Continued...

17. The legal tender requirement ("*wang ini sah diperlakukan*") means that _____.
    A. people are more likely to accept the dollar as a medium of exchange.
    B. the government must hold enough gold to redeem all currency.
    C. people may not make trades with anything else.
    D. All of the above are correct.

18. Demand deposits are a type of _____.
    A. checking account.
    B. time deposit.
    C. money market mutual fund.
    D. savings deposit.

19. Credit card limits are included in _____.
    A. M1 but not M2.
    B. M2 but not M1.
    C. M1 and M2.
    D. neither M1 nor M2.

20. In the long run, policy that changes aggregate demand changes _____.
    A. both unemployment and the price level.
    B. neither unemployment nor the price level.
    C. only unemployment.
    D. only the price level.

21. If the short-run Phillips curve were stable, which of the following would be unusual?
    A. an increase in government spending and a fall in unemployment.
    B. an increase in inflation and a decrease in output.
    C. a decrease in the inflation rate and a rise in the unemployment rate.
    D. a decrease in the money supply and a rise in unemployment.

22. How would a decrease in the natural rate of unemployment affect the long-run Phillips curve?
    A. It would shift the long-run Phillips curve right.
    B. It would shift the long-run Phillips curve left.
    C. There would be an upward movement along a given long-run Phillips curve.
    D. There would be a downward movement along a given long-run Philips curve.

23. If the economy is at the point where the short-run Phillips curve intersects the long-run Phillips curve, _____.
    A. unemployment equals the natural rate and expected inflation equals actual inflation.
    B. unemployment is above the natural rate and expected inflation equals actual inflation.
    C. unemployment equals the natural rate and expected inflation is greater than actual inflation.
    D. None of the above is necessarily correct.

Continued...

24. When the interest rate increases, the opportunity cost of holding money _____.
    A. increases, so the quantity of money demanded increases.
    B. increases, so the quantity of money demanded decreases.
    C. decreases, so the quantity of money demanded increases.
    D. decreases, so the quantity of money demanded decreases.

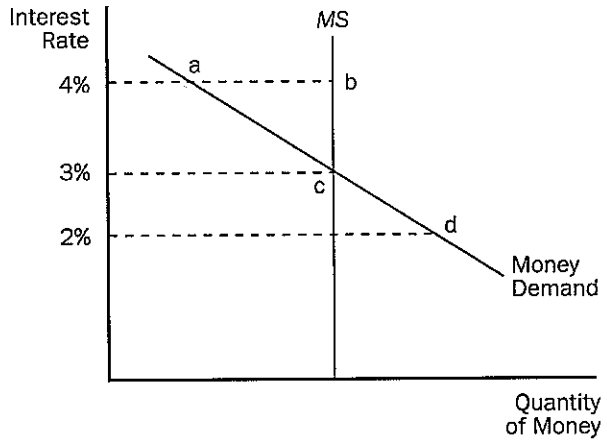

Figure 1

25. **Refer to Figure 1.** At an interest rate of 4 percent there is excess _____.
    A. money demand equal to the distance between a and b.
    B. money demand equal to the distance between b and c.
    C. money supply equal to the distance between b and a.
    D. money supply equal to the distance between c and b.

26. According to liquidity preference theory, an increase in the price level causes the interest rate to _____.
    A. increase, which makes output demanded increase.
    B. increase, which makes output demanded decrease.
    C. decrease, which makes output demanded increase.
    D. decrease, which makes output demanded decrease.

27. Open-market purchases _____.
    A. increase investment and real GDP.
    B. decrease investment and increase real GDP.
    C. increase investment and decrease real GDP.
    D. decrease investment and real GDP.

28. The government buys new weapons systems. The manufacturers of weapons pay their employees. The employees spend this money on goods and services. The firms they buy goods and services from pay their employees. This illustrates_____.
    A. the crowding-out effect.
    B. the multiplier effect.
    C. the Fisher effect.
    D. None of the above is correct.

Continued...

29. Which of the following policies would someone who wants the government to follow an active stabilization policy recommend when the economy is experiencing unemployment above the natural rate?
    A. decrease the money supply.
    B. increase government expenditures.
    C. increase taxes.
    D. All of the above are correct.

30. An increase in government spending on goods to build or repair infrastructure _____.
    A. shifts the aggregate demand curve to the right.
    B. has a multiplier effect.
    C. shifts the aggregate supply curve to the right, but this effect is likely more important in the long run.
    D. All of the above are correct.

31. Fiscal policy affects the economy_____.
    A. only in the short run.
    B. only in the long run.
    C. in both the short and long run.
    D. in neither the short nor long run.

32. Which of the following tends to make aggregate demand shift right farther than the amount government expenditures increase?
    A. the crowding-out effect.
    B. the multiplier effect.
    C. the wealth effect.
    D. the interest-rate effect.

33. The multiplier effect is the multiplied impact on _____.
    A. the money supply of a given increase in government purchases.
    B. tax revenues of a given increase in government purchases.
    C. investment of a given increase in interest rates.
    D. aggregate demand of a given increase in government purchases.

34. The existence of money leads to _____.
    A. greater specialization in production, but not a higher standard of living.
    B. a higher standard of living, but not greater specialization.
    C. greater specialization and a higher standard of living.
    D. neither greater specialization or a higher standard of living.

35. Which of the following best illustrates the medium of exchange function of money?
    A. You keep some money hidden in your shoe.
    B. You keep track of the value of your assets in terms of currency.
    C. You pay for your double latte using currency.
    D. None of the above is correct.

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36. Liquidity refers to _____.
    A. the ease with which an asset is converted to the medium of exchange.
    B. a measurement of the intrinsic value of commodity money.
    C. the suitability of an asset to serve as a store of value.
    D. how many time a dollar circulates in a given year.

37. Demand deposits are a type of _____.
    A. checking account.
    B. time deposit.
    C. money market mutual fund.
    D. saving deposit.

38. The money multiplier is defined as _____.
    A. 1/(1-R)
    B. 1/R
    C. 1/(1+R)
    D. (1+R)/R

39. When a country central bank increases the money supply, a unit of money _____.
    A. gains value both in terms of the domestic goods and services it can buy and in terms of the foreign currency it can buy
    B. gains value in terms of the domestic goods and services it can buy, but loses value in terms of the foreign currency it can buy.
    C. loses value in terms of the domestic goods and services it can buy, but gains value in terms of the foreign currency it can buy.
    D. loses value both in terms of the domestic goods and services it can buy and in terms of the foreign currency it can buy.

40. To say that money is a veil means that _____.
    A. while nominal variables are the first thing we may observe about an economy, what's important are the real variables and the forces that determine them.
    B. money is the principal medium of exchange in most economies.
    C. the primary determinant of short-run economic fluctuations is not real variables, but rather changes in the money supply.
    D. in the long run money is of no importance to the determination of either real or nominal variables.

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SECTION B: STRUCTURED QUESTIONS (60 marks)

Instruction: Answer all questions in the answer booklet provided.

Question 1 (20 marks)

(a) Discuss 3 important measures to control inflation. (12 marks)

(b) Economist use the ***Model of Aggregate Demand and Aggregate Supply*** to explain short-run fluctuations in economic activity around its long-run trend.

i. Define the aggregate demand and aggregate supply. (6 marks)

ii. Illustrate the aggregate demand and aggregate supply curve when the equilibrium is achieved. (2 marks)

Question 2 (20 marks)

(a) Using appropriate diagram, explain how the Phillips Curve is related to Aggregate Demand and Aggregate Supply. (8 marks)

(b) Use the model of aggregate demand and aggregate supply to show how policy can move the economy from a point on this curve with high inflation to a point with low inflation. (12 marks)

Question 3 (20 marks)

(a) Discuss the effect of a budget deficit in an open economy. (4 marks)

(b) Using appropriate graphs, explain the impact of budget deficit on the market for loanable funds, net capital outflow and the market for foreign- currency exchange. (16 marks)

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